



CELEBRATING
55 YEARS

nerej

Winter is coming... - by Justin Lamontagne

February 03, 2023 - Northern New England



Justin Lamontagne

For years now, I've had client after hopeful client ask if things were "cooling off" in the industrial market. And my answer had consistently been on the contrary, it was only getting more competitive. Year after year, we saw our vacancy rates plummet and plateau only when there was no plummeting left to go! And the annual supply and demand imbalance resulted in remarkable increases in sales & lease pricing. These anecdotes and statistics are well documented by now.

However, I can finally say with some confidence, you might get your coats on... it's getting chilly in the industrial market (maybe not a parka, but at least something with long-sleeves!). Okay, enough with the bad metaphors. Let me explain what's really going on in the industrial market.

There are a number of pieces of evidence that we are nearing or past the peak in the industrial sector.

Stats don't lie

Look, a sub-2% vacancy rate is still historically low. I'm not suggesting this is a buyer or tenants market, it's not. However, lease rates were flat for the first time in a decade. And our "shadow" and sublet opportunities are increasing.

Large vacancies lingering

At the end of each year I highlight large vacancies in our market, 30k s/f and up, with the typical prediction of them leasing up or selling within the 1st quarter of the next year. I won't be saying the same thing this year. There is a small handful of larger buildings that have been slow to move, some for over 9-12 months. It suggests a hesitancy in larger, institutional tenant demand and property owners should take heed of their competition.

Medicinal cannabis cultivation is oversaturated

Every week we see a new listing, generally under 10,000 s/f, come on the market promoting "cannabis friendly/approved" capabilities. The medicinal cultivation sector (versus recreational) has been particularly hit hard. It seems the predictions of oversaturation are coming to fruition as price points are falling for most cannabis related products. Importantly, the big question is if cannabis demand is down, how do we repurpose cultivation-specific facilities? And what kind of rent will traditional businesses pay?

Construction costs & delays

The fact that construction costs are climbing isn't news. But what's equally stifling new construction is time; the delays in getting materials and building components. These issues not only inhibit transactions, but they have a significant negative trickle-down effect for many industrial businesses bottom-lines.

Interest rates, inflation & economy

I'm on a word count limit here so lumping these three massively impactful themes into a single paragraph is a little self-serving. The bottom line is we all know interest rates are up, inflation is real and the specter of a recession feels real. All of these put downward pressure on real estate values. Even the mighty industrial sector isn't immune to these micro-economic influences. Put simply... it ain't great.

Repositioning office space

An interesting budding competitor for industrial supply is the office sector. No commercial real estate asset was hit harder by the pandemic than the office market. Large swaths of open office space sit empty in the Greater Portland suburbs and some, particularly first floor spaces, are prime for industrial conversion. As we once saw with large big-box retail conversions, so too I think we will soon see in the office market.

I want to reiterate, the industrial sector remains highly competitive and healthy. However, there are quantifiable and anecdotal reasons for concern. I predict continued plateauing of pricing in both leasing and sales. And a slight uptick in overall availabilities, including sublet spaces. The meteoric rise in the industrial market isn't necessarily over, but it appears to be leveling off.

Justin Lamontagne, CCIM, SIOR, is a partner/designated broker with The Dunham Group, Portland, ME.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540